

CCO 96-45

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington , D.C. 20554**

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**Federal Universal Service Programs**

**Fund Size Projections & Contribution Base**

**For Second Quarter 1998**

**Universal Service Administrative Company (USAC)**

**Universal Service  
Administrative Company  
100 South Jefferson Road  
Whippany, NJ 07981**

**January 30, 1998**

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**USAC**  
**UNIVERSAL SERVICE**  
**ADMINISTRATIVE CO.**

100 South Jefferson Road  
Whippany, NJ 07981

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96-45

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FEB 12 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

January 30, 1998

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

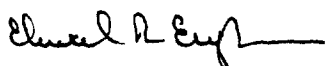
RE: Federal Universal Service Programs Fund Size Projections &  
Contribution Base for Second Quarter 1998

Dear Ms. Salas:

Enclosed are the original and four copies of the Universal Service Administrative Company's (USAC) Federal Universal Service Programs Fund Size Projections & Contribution Base for Second Quarter 1998.

Copies of this filing have been served on parties listed in the attached service list. Acknowledgment and date of receipt of this filing is requested. A duplicate letter is provided for this purpose.

Sincerely,



Edward R. English

Enclosure

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 30th day of January 1998, by mailing copies thereof by United States Mail, first class postage paid, or by hand delivery, to the persons listed below.

By: /s/ Kathleen Ross  
Kathleen Ross

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**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

**Federal Universal Service Programs  
Fund Size Projections & Contribution Base  
For Second Quarter 1998**

**January 30, 1998**

**Universal Service  
Administrative Company  
100 South Jefferson Road  
Whippany, NJ 07891**

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**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

**Federal Universal Service Programs  
Fund Size Projections & Contribution Base  
For Second Quarter 1998**

**I. Introduction**

The Universal Service Administrative Company (USAC) submits the Federal Universal Service Program fund size and administrative cost projections for the second quarter of calendar year 1998 and revisions to the contribution base amounts for the first six months of 1998, in accordance with section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.<sup>1</sup> USAC is a not-for-profit corporation created under Subpart H of the Commission's Part 54 rules for interim administration of the federal High Cost and Low Income Universal Service programs and for performance of billing, collection and distribution of funding for the Schools and Libraries and Rural Health Care Universal Service programs.<sup>2</sup>

Upon approval of the quarterly funding requirements for the High Cost and Low Income programs, the projected administrative expenses and the establishment of contribution factors for the programs by the Commission, USAC will bill contributors on a monthly basis for their individual requirements, collect the funds,<sup>3</sup> and distribute funds

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<sup>1</sup> 47 C.F.R. § 54.709(a)(3).

<sup>2</sup> See 47 C.F.R. §§ 54.5 and 54.701.

<sup>3</sup> 47 C.F.R. § 54.709(a)(4).

to eligible recipients<sup>4</sup> based on the schedules filed herein.<sup>5</sup>

## **II. High Cost Programs**

Subpart F of Commission's Part 36 rules and Subpart D of the Commission's Part 54 rules describe the universal service programs that will be available for eligible telecommunications carriers serving high cost areas beginning January 1, 1998.<sup>6</sup> These programs include the loop cost expense adjustment (USF), local switching support (DEM Weighting) and long term support (LTS). Together, the projected requirements for these three programs and the USAC administrative expenses, discussed *infra*, constitute the funding requirement for the High Cost programs.

### **USF Loop Cost Expense Adjustment**

The National Exchange Carrier Association, Inc. (NECA), in accordance with section 36.613 of the Commission's rules, submitted the results of its annual collection of loop cost data to the Commission and to the universal service program administrator.<sup>7</sup>

Subsequent to the NECA data submission, and the USAC October 31, 1997

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<sup>4</sup> See 47 C.F.R. §§ 54.201 and 54.203.

<sup>5</sup> See 47 C.F.R. §§ 54.301-54.307, 54.407, 54.413, 54.515, 54.611.

<sup>6</sup> 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303.

<sup>7</sup> 47 C.F.R. § 36.613.

filing of First Quarter 1998 Universal Service Fund Requirements<sup>8</sup>, the Commission rejected the formula on which the Average Schedule companies' USF support was calculated<sup>9</sup> and in its 4<sup>th</sup> Reconsideration Order modified the limitation on Corporate Operations expenses that are reflected in the USF loop cost.<sup>10</sup>

NECA has provided USAC with revised loop cost and expense adjustment data, based on the calendar year 1996 data submitted to NECA by the incumbent local exchange carriers on July 31, 1997, as adjusted to reflect the aforementioned changes. The expense adjustment payments for 1998 continue to exceed the cap on USF<sup>11</sup> established in section 36.601(c).<sup>12</sup> The USF expense adjustment cap methodology, limits payments for calendar year 1998 to, in aggregate, not exceed the level of payments for 1997 by more than the rate of growth in USF loops from 1995 to 1996. As a result, USF

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<sup>8</sup> Universal Service Administrative Co., *Federal Universal Service Programs, Fund Size Projections & Contribution Base for First Quarter 1998* (filed Oct. 31, 1997) (October 31, 1997 Filing).

<sup>9</sup> National Exchange Carrier Association, Inc., (NECA Proposed Modifications to the 1997 Interstate Average Schedule Formulas and Proposed Further Modifications to the 1997-98 Interstate Average Schedule Formulas, *Order on Reconsideration and Order*, AAD 97-2, AAD 97-109, DA 97-2710 (rel. Dec. 24, 1997).

<sup>10</sup> Federal-State Joint Board on Universal Service and Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charge, *Fourth Order on Reconsideration in CC Docket No. 96-45, Report and Order in CC Docket Nos. 96-45, 96-262, 94-1, 91-213, 95-72*, 62 Fed. Reg. 2094 (1998). (4<sup>th</sup> Reconsideration Order).

<sup>11</sup> See National Exchange Carrier Association, Inc., *1997 NECA Submission of 1996 Universal Service Fund Data* (filed Oct. 1, 1997) (USF Data Submission).

<sup>12</sup> 47 C.F.R. § 36.601(c).

expense adjustment payments for 1998 are projected to be \$826.9 million.<sup>13</sup>

Section 36.612 of the Commission's rules provides carriers with the option of submitting quarterly updates to the data submitted for the annual USF submission.<sup>14</sup> NECA has informed USAC that on December 30, 1997, eighty-five local exchange carriers submitted quarterly updates containing loop cost information based on twelve months of data consisting of the final six months of 1996 and the initial six months of 1997. As a result of the quarterly updates submitted and the fact that total expense adjustment funding requirements for 1998 exceed the cap, payments to each high cost exchange carrier will be adjusted to accommodate the quarterly updates, limitations resulting from FCC Waiver Orders and to insure that, in total, the funding does not exceed the cap.<sup>15</sup>

For the second three months of 1998, the projected USF expense adjustment requirement is \$ 206.7 million, one-fourth of the annual requirement projected by NECA. Appendix 1 contains projected monthly and total quarter projected payment levels by incumbent local exchange carrier study area for the second quarter of 1998, based on NECA's October 1, 1997 submission adjusted to reflect the change in Average Schedule

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<sup>13</sup> The USF cap methodology requires periodic updates to account for increases in prior calendar year payment amounts. Payments for 1996, which were below the cap for that year, increased by \$0.2 million. Because a current year's payment level is derived from the prior year's amount grown by the growth in loops, this impact on 1996 data impacts both the 1997 and 1998 caps as well.

<sup>14</sup> 47 C.F.R. § 36.612(a).

<sup>15</sup> Although the rules governing quarterly updates are silent on the transfer of quarterly update results from NECA to the administrator, it is assumed the Commission intended for NECA to provide results of the quarterly update process to USAC for inclusion in the monthly support distribution process.

company formula, the modification to the Corporate Operations Expense limitation and the impact of quarterly updates submitted to NECA on September 30, and December 30, 1997.

### Local Switching Support

Beginning January 1, 1998, telephone company study areas having 50,000 or fewer access lines are eligible to receive support for local switching costs<sup>16</sup> in lieu of Dial Equipment Minute (DEM) Weighting formerly included in interstate traffic sensitive switched access rates.

Local switching support is the product of a carrier's annual unseparated local switching revenue requirement multiplied by its local switching support factor. The local switching support factor is defined as the difference between the 1996 weighted interstate DEM factor and the 1996 unweighted DEM factor.

In the 4<sup>th</sup> Reconsideration Order the Commission clarified the definition of Unseparated Local Switching Revenue Requirement, and provided the methodology to be used to compute it.<sup>17</sup> The 4<sup>th</sup> Reconsideration Order adopted the methodology NECA used to estimate the funding requirement for its Traffic Sensitive pool member companies.<sup>18</sup> USAC's October 31, 1997 filing relied on the methodologies that NECA developed for

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<sup>16</sup> In addition to the eligibility criteria set forth in 47 C.F.R. § 54.201, exchange carrier study areas must also serve fewer than 50,000 lines to receive local switching support. See 47 C.F.R. § 54.301.

<sup>17</sup> 4<sup>th</sup> Reconsideration Order at ¶ 49.

<sup>18</sup> *Id.*

removing the DEM support from its traffic sensitive pool participants' rates and the instant filing continues to rely on those methodologies. There are 1,092 study areas in the NECA Traffic Sensitive pool that are eligible to receive local switching support (*i.e.*, have fewer than 50,000 lines in their study areas). NECA calculated the unseparated local switching revenue requirement for its cost and average schedule traffic sensitive pool participants separately. In each case, the unseparated local switching revenue requirement was developed using the algorithm approach that assigns overheads to the switching category. Exhibits 1 and 2 display the algorithms that were used to develop the local switching revenue requirements for NECA's average schedule and cost company pool participants respectively.

The 4<sup>th</sup> Reconsideration Order directed USAC to develop a data request to collect information from the exchange carrier study areas that have fewer than 50,000 lines that do not participate in the NECA traffic sensitive pool.<sup>19</sup> The data collection form was approved by the Office of Management and Budget on January 16, 1998 and distributed to the non-NECA Traffic Sensitive pool participant companies on January 20, 1998.<sup>20</sup> The company specific data is due to be reported to USAC by February 13, 1998.

Because data for these companies is not yet available, the previous estimates of local switching support continue to be used.<sup>21</sup> In order to project the 2Q98 funding

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<sup>19</sup> *Id.*

<sup>20</sup> A copy of the data collection form and instructions are included as Exhibit 3.

<sup>21</sup> To the extent that companies have provided USAC with their own estimates of Local Switching Support amounts, these data have been substituted for the previous estimated amounts. Ultimately the support amounts for these companies will be finalized based on the data submitted in response to the Local Switching Support data request.

requirement for these study areas, estimates were developed based on the average per line support levels for the NECA pool participants.<sup>22</sup> NECA's projection of local switching support amounts being removed from its traffic sensitive pool participants' access rates are \$196.6 million for cost study areas and \$101.8 million for average schedule study areas. USAC's projection of the non-NECA traffic sensitive pool study areas' DEM weighting is \$117.3 million for cost study areas and \$9.3 million for average schedule study areas. Based on these estimates, total 1998 local switching support is estimated to be \$425.0 million. USAC projects that one-quarter of this amount, or \$106.3 million will be required for 2Q98. Individual study area local switching support projections per month are displayed in Appendix 2.

Because the local switching support is based on projections of 1998 switching costs, actual individual study area requirements will not be known until the 1998 cost studies are completed for those carriers, sometime in late 1999. The Commission's rules specify that true-ups to the local switching support will be made to reflect actual 1998 switching costs.<sup>23</sup>

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USAC will provide the Commission with revised Local Switching Support amounts for these companies when it receives and processes the requested information.

<sup>22</sup> Separate average support per line amounts were developed for cost and average schedule study areas and for each of the three line size categories (<10,000, 10,001-20,000, and 20,001-50,000) within each carrier type. For cost company study areas, the per line amounts utilized were \$8.34, \$5.73, and \$3.24 respectively. Average schedule per line support amounts were \$5.91, \$2.51, and \$2.39 respectively.

<sup>23</sup> 47 C.F.R. § 54.301(e)(2)(iv) ("The Administrator shall adjust each carrier's local switching support payment by the difference calculated in paragraph (e)(2)(iii) of this section no later than 15 months after the end of the calendar year for which historical data are submitted.")

### Long Term Support

Beginning January 1, 1998, telephone company study areas that participate in NECA's Common Line pool will be eligible to receive long term support from the federal high cost support programs.<sup>24</sup>

The amount of long term support that an incumbent local exchange carrier that participates in NECA's Common Line pool is eligible to receive is equal to the difference between the 1997 projected common line revenue requirement of that carrier and the 1997 projected revenue to be recovered by the application of the NECA Carrier Common Line charge to that carrier's common line minutes of use. For 1998 long term support, the 1997 level of support is multiplied by the rate of growth in the national average cost per loop filed by NECA on October 1, 1997.<sup>25</sup>

NECA provided USAC with individual exchange carrier study area projected long term support requirements for its common line pool participants for 1998. Using year-end 1996 USF loop counts, USAC developed individual study area per-line per-month long term support amounts. Monthly and second quarter study area specific Long Term Support levels are displayed in Appendix 3. The initial long term support amounts are predicated on projections of 1997 requirements, with actual costs and revenues not being known until the final 1997 cost studies are complete, late in 1998. Total 1998 Long Term Support is estimated to be \$469.9 million. USAC projects that one-quarter of this amount, or \$117.5 million, will be required for second quarter 1998.

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<sup>24</sup> 47 C.F.R. § 54.303.

<sup>25</sup> See USF Data Submission at 6. The national average cost per loop for 1996 decreased by .44 percent from the 1995 level.

Appendix 4 contains individual company loop data as well as per-month high cost support for each program that each of the incumbent local exchange carrier will be eligible to receive and the combined total support per-month for all of the High Cost programs.<sup>26</sup>

### **III. Low Income Programs**

As a requirement for eligibility for receipt of support, carriers must offer Lifeline programs to qualified low-income consumers. Carriers that provide such programs in accordance with section 54 Subpart E of the Commission's rules and have met the other conditions of eligible carrier status (*i.e.*, have been designated as an eligible telecommunications service provider and have provided a copy of the state public utilities commission document making that designation) are entitled to receive funding from the federal Universal Service programs for waiver of charges and reduced rates provided to qualified low-income subscribers.<sup>27</sup>

Specifically, the federal Lifeline program provides funding from the interstate jurisdiction of up to \$7.00 per low-income subscriber per month consisting of a baseline amount of \$3.50, an additional \$1.75 per subscriber per month if the state commission authorizes a reduction in local rates equal to that amount, and up to an additional \$1.75 from the federal program if the state provides support for the low-income subscriber as well (the portion of the final \$1.75 that can be recovered is equal to one-half of a state

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<sup>26</sup> Appendices 1 through 4 are also being provided electronically in Excel 4.0 format.

<sup>27</sup> 47 C.F.R. §§ 54.401-54.417. Exhibit 4 lists by state, the carriers that have

funded amount up to \$3.50, if the state approves a reduction in local rates that is one and one-half times the level of matching state support).<sup>28</sup>

The federal Link-up program will compensate eligible telecommunications service providers for revenue foregone in offering a Link-up program that provides for service commencement charges for qualified low-income individuals that are discounted by one-half (up to \$30.00 in funding) or for interest forgone from a deferred schedule of payment of the charges assessed for commencing service (up to \$200.00) for which the low income consumer pays no interest.

Additionally, the federal program will compensate eligible telecommunications service providers for providing voluntary toll-limitation based on the carrier's incremental cost of providing toll-limitation services. The Commission defined these costs as the costs that carriers otherwise would not incur if they did not provide toll-limitation service to a given customer.<sup>29</sup>

In its 4<sup>th</sup> Reconsideration Order, the Commission established that eligible carriers, required to assess Presubscribed Interexchange Carrier Charges (PICCs) in their access charges, may also receive compensation for the PICCs associated with low-

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received Eligible Telecommunications Carrier status.

<sup>28</sup> For example, if a carrier operating in a state that has a matching program that provides \$3.50 in support through a matching program, reduces its intrastate rates by \$7.00 for low-income customers, the customer would experience a total monthly rate reduction of \$10.50 (\$3.50 in interstate charges and \$7.00 in intrastate charges) of which \$7.00 would be funded from the federal jurisdiction and \$3.50 from the state matching program.

<sup>29</sup> Federal-State Joint Board on Universal Service, *Report and Order*, 12 FCC Rcd 8776 (1997) at ¶ 386 (Universal Service Order).

income subscribers that voluntarily opted for toll blocking service.<sup>30</sup>

Part 54 of the Commission's rules requires state commissions to file or to require carriers to file information with the Administrator detailing the number of qualifying low-income consumers and the level of state assistance.<sup>31</sup> The Commission reiterated this requirement imposed on state commissions, as well as requiring the state commissions to provide the Commission and the administrator with a list of eligible carriers by December 31, 1997, in a Public Notice released on September 29, 1997.<sup>32</sup> As of this date, all of the states have provided Lifeline program information to USAC; however, the projection information provided is insufficient to develop a forecast of funding requirements.

On December 16, 1997, the Commission in establishing the final contribution factors for the first quarter of 1998 established a projected annual funding requirement for the Low-Income program of \$500 million, and limited first quarter funding to \$125 million.<sup>33</sup> As USAC has yet to receive any claims for low-income reimbursement, it is

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<sup>30</sup> See 4<sup>th</sup> Reconsideration Order at ¶¶ 123-125. Competitive Local Exchange Carriers designated ETCs to serve customers in these carriers' serving areas are also eligible to receive this compensation for their low income customers that opt for toll blocking. *Id.* at ¶ 125.

<sup>31</sup> 47 C.F.R. § 54.401(d).

<sup>32</sup> Public Notice, CC Docket No. 96-45, DA 97-1892, Common Carrier Bureau Announces Procedures for States regarding Lifeline Consents, Adoption of Intrastate Discount Matrix for Schools and Libraries and Designation of Eligible Telecommunications Carriers (rel. Sept. 29, 1997).

<sup>33</sup> Public Notice, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, 63 Fed. Reg. 3892 (Jan. 27, 1998).

relying on the Commission's forecast.<sup>34</sup> USAC is therefore requesting an additional \$125 million in funding for the low-income programs for the second quarter of 1998 based on the Commission's estimated 1998 funding requirements.

Appendix 5 provides detail on the low-income programs available in each of the states.

#### **IV. Administrative Expenses**

Section 69.620 of the Commission's rules require the administrator to submit to the Commission its projected quarterly budget at least 60 days prior to the start of the quarter.<sup>35</sup> In its July 17, 1997 Order,<sup>36</sup> the Commission determined that USAC should not allocate all of its administrative costs to the high cost and low-income programs' quarterly cost projections.<sup>37</sup> The Commission directed USAC to include any costs that can be directly attributed to the schools and libraries or rural health care programs in the projected administrative expenses of the relevant programs.<sup>38</sup> USAC's joint and common costs associated with billing and collection of contributions or disbursement of funds are

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<sup>34</sup> USAC anticipates that initial claims for January 1998 Low-Income program reimbursement will be received in mid-February and that when the filing of contribution factors for the third quarter of 1998 is made on May 2, 1998, sufficient detailed historical information will be available to project the requirements for this program for the year.

<sup>35</sup> 47 C.F.R. § 69.620(b).

<sup>36</sup> Changes to the Board of Directors of the National Exchange Carrier Association, Inc., and Federal-State Board on Universal Service, *Report and Order and Second Order on Reconsideration*, 12 FCC Rcd 18400 (1997) (Reconsideration Order).

<sup>37</sup> Reconsideration Order at ¶ 47.

<sup>38</sup> *Id.*

also to be identified. One-fourth of USAC's joint and common costs are to be included in the projected administrative expenses of the high cost, low-income, schools and libraries, and rural health care programs, respectively.<sup>39</sup>

In its August 15, 1997 Order<sup>40</sup> the Commission directed NECA to begin performing certain functions relative to the new Universal Service programs and established that NECA would receive reimbursement for administrative expenses associated with its performance of the incorporation and other start-up functions that had been assigned to it. The Commission concluded that NECA would be entitled to recover from the new universal service support mechanisms in 1998 all reasonable administrative costs, including interest on funds advanced for start-up activities, that NECA incurred in 1997 in performing the duties assigned to it by the July 17<sup>th</sup> and August 15<sup>th</sup> Orders.<sup>41</sup>

USAC projects that it will incur expenses of \$173 thousand to administer the high cost programs during the second quarter of 1998. Additionally, USAC anticipates costs of \$181 thousand to administer the low income programs during the second quarter.

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<sup>39</sup> *Id.*

<sup>40</sup> Changes to the Board of Directors of the National Exchange Carrier Association, Inc., CC Docket No. 97-21, and Federal-State Board on Universal Service, CC Docket No. 96-45, *Order on Reconsideration, Second Report and Order, and Further Notice of Proposed Rulemaking*, 62 Fed. Reg. 47369 (Aug. 15, 1997)(Governance Reconsideration Order).

<sup>41</sup> The Commission stated that USAC and the Corporations may contract with NECA for particular services when doing so would minimize administrative expenses or facilitate the prompt implementation of the support mechanisms. Reconsideration Order at ¶¶ 71-74. In this August 15<sup>th</sup> Order, the Commission clarified that NECA also may receive compensation for services provided on behalf of USAC and the Corporations even before the establishment of those entities. Governance Reconsideration Order at ¶ 12.

The joint and common costs for the second quarter of 1998 total \$924 thousand, of which \$231 thousand is to be assigned to each of the programs (*i.e.*, high cost, low income, schools and libraries, and rural health care).

The October 31, 1997 USAC filing for the first quarter of 1997, projected that NECA would incur start-up expenses for the universal service programs of \$1,444 thousand, \$800 thousand of which were directly attributable to the schools and libraries and rural health care programs. The remaining \$644 thousand were joint and common costs with \$161 thousand in expenses being assigned to both the high cost and low income programs.

In the Universal Service Order, the Commission directed NECA to continue performing certain functions relative to the Universal Service Fund (USF), *i.e.*, the collection and processing of annual USF data as well as the optional quarterly updates to that data.<sup>42</sup> The Part 69 rules governing recovery of NECA expenses no longer permit recovery of expenses related to Universal Service in that there are no associated revenues.<sup>43</sup> NECA's projected second quarter expenses to perform these universal service programs-related functions are \$470 thousand and have been included in the second quarter 1998 requirement.

USAC anticipates that the process of monthly billing and collection of funds in advance of distribution will produce interest income for each of the programs, commensurate with the level of funding required for each program. For the second

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<sup>42</sup> See 47 C.F.R. §§ 36.611-36.613.

<sup>43</sup> See 47 C.F.R. § 69.603.

quarter of 1998, USAC projects interest income of approximately \$936 thousand for the high cost program and \$270 thousand for the low-income program. The projected interest income is being included as an offset to expenses for each of the programs.

Appendix 6 provides the detail of the expense projections for the high cost and low income programs. Second quarter 1998 projected expenses for the high cost programs are \$874 thousand, offset by projected interest income of \$936 thousand, providing a net reduction to the funding requirement of \$62 thousand. Second quarter 1998 projected expenses for the low income programs are \$412 thousand offset by interest income of \$270 thousand, providing a net addition to the low income funding requirement of \$142 thousand.

## **V. Funding Requirements**

### **High Cost Programs**

In addition to the projected requirements for the high cost programs for the second quarter of 1998 discussed *supra* and the aforementioned projected expenses assigned to the high cost programs, are carry-over requirements from the programs administered by NECA through the end of 1997 and adjustments to projected 1Q98 support payments. An additional \$0.1 million has been included in the 2Q98 requirement to true-up changes to existing requirements that have occurred since NECA's last tariff was filed in June 1997. These additional funds are required to account for differences between prior projections and actual assistance provided. Sections 36.631(e), 36.741(b) and 69.104(l) of the Commission's rules require NECA to make changes in the size of the

projected revenue requirement to reflect adjustments based on actual dollar amounts compared to the forecast included in prior tariff rates.<sup>44</sup> Increases in the size of the funding requirement for the previous period are added to the projected USF requirements; decreases from the prior period are subtracted from the projected revenue requirements. Since NECA no longer has the capability to reflect these changes in future tariffs, the additional requirement is being added to the first quarter projection for the high cost programs.

The total projected funding requirement for the high cost programs for the second quarter 1998 is \$431.1 million. Exhibit 5 details the individual components of the funding requirement for the second quarter of 1998.

#### Low-Income Programs

As is the case with the high cost programs, there is also a carry-over effect from the NECA-administered Low-Income programs; however, in this instance, it is a projected surplus in funding of \$2.7 million. This true-up reduces the 2Q98 funding required.

The total projected funding requirement for the low-income programs for the second quarter 1998 is \$122.4 million. Exhibit 5 details the individual components of the funding requirement for the quarter.

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<sup>44</sup> Section 36.631(e) of the rules defines the resizing procedure for USF. Sections 36.741(b) and 69.104(l) of the Commission's rules define the resizing procedures for lifeline connection assistance and subscriber line charge waiver, respectively. See 47 C.F.R. §§ 36.631(e), 36.741(b) and 69.104(l).

## VI. Contribution Bases

NECA, on behalf of USAC, distributed over 3,400 forms (FCC Form 457) in late August 1997. Interstate telecommunications service providers were required to complete this form with revenue information for the first half of 1997 and return the forms to NECA. To date, NECA/USAC have received over 4,000 completed forms.

For the initial funding period the total end-user revenue base used in determining the contribution factor for the schools and libraries and rural health care programs was \$89.827 billion. The interstate and international end-user revenue base used in determining the contribution factor for the high cost and low-income programs was \$35.001 billion.<sup>45</sup>

Since USAC's October 31, 1997 filing, several carriers have provided revisions to their initial Form 457 submissions. Additional carriers that previously did not submit a form have provided Form 457 information for the first time. Carriers whose Form 457s were returned to them by USAC because their initial submission was deemed incomplete and unusable in its then current state have provided corrections to their initial submissions. All of these activities have had an impact on the contribution revenue base amounts.

In addition, the 4<sup>th</sup> Reconsideration Order addressed several petitions by parties seeking to be excluded from the requirement to contribute to the programs.<sup>46</sup> In that Order, the Commission determined that carriers whose annual contribution is estimated to

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<sup>45</sup> See December 16, 1997 Public Notice establishing 1Q98 Contribution Factors, *supra* n. 33.

<sup>46</sup> See 4<sup>th</sup> Reconsideration Order at ¶¶ 255-298.

be less than \$10,000 would be considered *de minimis* and classified as end users for Universal Service contribution purposes.<sup>47</sup> Additionally, the Commission determined that certain classes of carriers, (e.g., broadcasters) and others (e.g., systems integrators) for whom telecommunications service accounts for only a *de minimis* portion of their revenues are also for the purposes of Universal Service contribution to be classified as end users.<sup>48</sup>

In mid-January 1998, USAC rendered bills for the Universal Service programs to 2,105 telecommunications service providers. The revenue base amounts for these carriers totaled \$92.201.2 million in total end user billed revenue of which \$35,349.4 million was reported as interstate and international revenue.<sup>49</sup>

In each of the situations described above, the Commission directed the parties being afforded end user status to notify their underlying facilities-based carrier of their being exempt from contributing to Universal Service funding, so that the underlying

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<sup>47</sup> See *Id.* at ¶¶ 293-298.

<sup>48</sup> The Commission determined that classification as end user was also appropriate for non-profit schools, colleges, universities, libraries and health care providers. 4<sup>th</sup> Reconsideration Order at ¶ 284.

<sup>49</sup> The January 1998 billing revenue base includes revenues for entities which have subsequently claimed an exemption based on the 4<sup>th</sup> Reconsideration Order. As such, the total billing revenue base is overstated by approximately \$45.2 Million, of which \$34.9 million is included in the Interstate and International revenues. It is likely that USAC will receive declarations from other entities that may claim this exemption as well. To the extent that additional carriers claim exempt status, USAC will inform the Commission of changes that impact the funding base for the second quarter, so that the contribution factors can be established based on only those revenues associated with carriers required to contribute to the funding of these programs.

carrier could, in turn, report those revenues as end user billed revenues on their Form 457.<sup>50</sup>

At its January 26, 1998 meeting, the High-Cost Low-Income Committee passed a resolution authorizing the 2nd quarter 1998 high cost and low income program funding requirements. The full USAC Board of Directors authorized the inclusion of the second quarter 1998 administrative expenses and the revised funding base.

Respectfully submitted,

UNIVERSAL SERVICE  
ADMINISTRATIVE COMPANY

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Acting Secretary and Treasurer

January 30, 1998

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<sup>50</sup> The 4<sup>th</sup> Reconsideration Order, while directing the exempted companies to inform their underlying carriers of their end user status, provided no direction to the underlying carriers about revising their own Form 457 reported revenue. USAC assumes that these revenues will be reported as part of the March 31 collection of calendar year 1997 results. Thus, for the purposes of the second quarter funding base, these revenues essentially have been removed since there is no billable entity associated with the revenues in question.

## **Exhibit 1**